

BARAGA VILLAGE/KEWEENAW BAY RESERVATION  
WASTE WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 28, 2007

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Baraga Village/Kew. Bay Wastewater Auth.	County Baraga
Fiscal Year End February 28, 2007	Opinion Date July 7, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

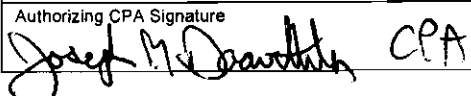
2007

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Joseph M. Daavettila, P.C., CPA		Telephone Number (906) 482-3830		
Street Address 417 Shelden Avenue		City Houghton	State MI	Zip 49931
Authorizing CPA Signature  CPA		Printed Name JOSEPH M. DAAVETTILA		License Number 1101015628

## TABLE OF CONTENTS

	Page
Independent Auditors' Report .....	3
Financial Statements:	
Statements of Net Assets .....	4
Statements Of Revenues, Expenses, and Changes In Net Assets.....	5
Statements Of Cash Flows .....	6
Notes to Financial Statements .....	7
Report on Compliance And On Internal Control Over Financial Reporting Based on An Audit of Financial Statements Performed In Accordance With Government Auditing Standards.....	12

JOSEPH M. DAAVETTILA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT  
417 SHELDEN AVENUE, P.O. BOX 488  
HOUGHTON, MICHIGAN 49931

July 7, 2007

Baraga Village/Keweenaw Bay Reservation  
Waste Water Authority  
Baraga, Michigan 49908

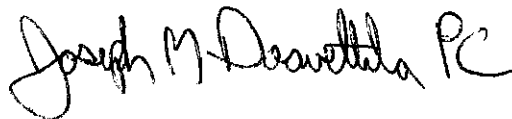
We have audited the accompanying financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of and for the years ended February 28, 2007 and February 28, 2006. These financial statements are the responsibility of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga Village/ Keweenaw Bay Reservation Waste Water Authority as of February 28, 2007 and February 28, 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented management's discussion and analysis which is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



Certified Public Accountant

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

STATEMENTS OF NET ASSETS

	February 28, <u>2007</u>	February 28, <u>2006</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 24,107	\$ 7,839
Accounts receivable	<u>8,297</u>	<u>13,093</u>
TOTAL CURRENT ASSETS	\$ 32,404	\$ 20,932
<u>RESTRICTED ASSETS</u>		
Cash	<u>\$ 68,504</u>	<u>\$ 13,603</u>
<u>NONCURRENT ASSETS</u>		
Capital assets:		
Wastewater distribution system	\$ 6,285,420	\$ 6,285,420
Less accumulated depreciation	( 3,097,444)	( 2,912,634)
Construction in progress	<u>3,325,089</u>	<u>2,895,008</u>
TOTAL NONCURRENT ASSETS	\$ 6,513,065	\$ 6,267,794
TOTAL ASSETS	\$ 6,613,973	\$ 6,302,329
<u>CURRENT LIABILITIES</u>		
Accounts payable and payroll taxes	\$ 987	\$ 2,495
Due to other governmental units	42,133	31,514
Current maturities on long-term debt	<u>16,893</u>	<u>61,235</u>
TOTAL CURRENT LIABILITIES	\$ 60,013	\$ 95,244
<u>NONCURRENT LIABILITIES</u>		
Due to other governmental units	<u>49,846</u>	<u>66,739</u>
TOTAL LIABILITIES	\$ 109,859	\$ 161,983
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt:		
Village of Baraga	\$ 5,465,972	\$ 5,157,641
Keweenaw Bay Indian Community	496,628	525,187
Unrestricted:		
Village of Baraga	270,757	228,759
Keweenaw Bay Indian Community	<u>270,757</u>	<u>228,759</u>
TOTAL NET ASSETS	<u>\$ 6,504,114</u>	<u>\$ 6,140,346</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>Year Ended</u>	
	<u>February 28,</u> <u>2007</u>	<u>February 28,</u> <u>2006</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 401,523	\$ 293,338
Other revenue	<u>28,123</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>\$ 429,646</u>	<u>\$ 293,338</u>
<u>OPERATING EXPENSES</u>		
Salaries	\$ 5,755	\$ 6,450
Payroll taxes	436	470
Office supplies	-	126
Operating supplies	2,217	9,262
Contracted services - Village of Baraga	139,230	130,841
Contracted services - other	2,741	10,947
Repairs and maintenance	-	1,452
Insurance	4,260	4,259
Utilities	26,891	11,519
Provision for depreciation	184,810	179,883
Miscellaneous	146	-
Equipment rental	<u>5,390</u>	<u>6,572</u>
TOTAL OPERATING EXPENSES	<u>\$ 371,876</u>	<u>\$ 361,781</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>\$ 57,770</u>	<u>(\$ 68,443)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	\$ 500	\$ -
Interest expense	( 4,584)	( 8,086)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(\$ 4,084)</u>	<u>(\$ 8,086)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers (to) from other governmental units	(\$ 120,000)	\$ 31,649
Capital contributions	<u>430,082</u>	<u>2,889,008</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 310,082</u>	<u>\$ 2,920,657</u>
CHANGE IN NET ASSETS	\$ 363,768	\$ 2,844,128
Total net assets, beginning of year	<u>6,140,346</u>	<u>3,296,218</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 6,504,114</u>	<u>\$ 6,140,346</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY  
STATEMENTS OF CASH FLOWS

	<u>Year Ended</u>	
	<u>February 28,</u> <u>2007</u>	<u>February 28,</u> <u>2006</u>
<u>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 434,442	\$ 294,390
Payments to suppliers	( 171,752)	( 216,118)
Payments to employees	( 6,203)	( 6,920)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 256,487</u>	<u>\$ 71,352</u>
<u>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Restricted assets	(\$ 54,900)	(\$ 13,603)
Transfers from (to) other governmental units	( 120,000)	31,649
Payments on installment obligation	( 61,235)	( 103,417)
Interest income	500	-
Interest paid	( 4,584)	( 8,086)
NET CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(\$ 240,219)	(\$ 93,457)
NET INCREASE (DECREASE) IN CASH	\$ 16,268	(\$ 22,105)
Cash, beginning of year	7,839	29,944
Cash, end of year	<u>\$ 24,107</u>	<u>\$ 7,839</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ 57,770	(\$ 68,443)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	184,810	179,883
Changes in assets and liabilities:		
Accounts receivable	4,796	1,052
Accounts payable and payroll taxes	( 1,508)	( 31,937)
Due to other governmental units	<u>10,619</u>	<u>( 9,203)</u>
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	<u>\$ 256,487</u>	<u>\$ 71,352</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

February 28, 2007 and February 28, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Village of Baraga (Village) and the Keweenaw Bay Indian Community (Community) entered into an agreement on September 27, 1995, for the purpose of creating the Baraga Village/Keweenaw Bay Reservation Waste Water Authority Board. The Authority shall own, operate, and maintain a joint waste water treatment facility and associated system components. The Keweenaw Bay Indian Community and the Village of Baraga shall be equal partners in and shall jointly operate the Waste Water System. The Authority shall employ the Village of Baraga as System Operator to operate and maintain the system and shall pay the Village for such services. This agreement expires January 1, 2100, unless extended by agreement of both parties.

The Authority Board consists of five trustees. Two trustees are appointed by the Baraga Village Council, two trustees are appointed by the Keweenaw Bay Tribal Council, and one trustee appointed by unanimous decision of the four aforementioned trustees. Each trustee serves a three year term. The Authority provides waste water treatment services to the Village of Baraga and the Keweenaw Bay Indian Community. The accompanying financial statements include only the Baraga Village/Keweenaw Bay Reservation Waste Water Authority and do not include any other governmental agencies or departments.

The Baraga Village/Keweenaw Bay Reservation Waste Water Authority began operations September 1, 1996.

REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," the financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either the Village or the Community. Elements considered in determining that the Authority is not a component unit of the Village or the Community are as follows:

1. The Village or the Community are not responsible for the designation of the Authority's management.
2. The Village or the Community do not approve the Authority's annual budget or budget amendments.
3. The Village or the Community do not significantly influence operations.
4. The Village or the Community each appoint two of the five members to the Authority's Board of Trustees.
5. The Village or the Community do not have significant fiscal management responsibilities.
6. The Village or the Community provide no direct on-going financial support to the Waste Water Authority.
7. The Village or the Community do not hold title to the physical assets of the Authority.

Financial transactions between the Village or the Community and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services. The Village and the Community should account for their investment in the Authority, using the Equity method, as required by generally accepted accounting principles.



BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The accounting policies of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority conform to generally accepted accounting principles. The Authority utilized the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

ASSETS AND LIABILITIES

1. Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
2. Receivables - All receivables are considered to be fully collectible.
3. Capital assets - Capital assets include property, plant and equipment. Capital assets are recorded at historical cost on the Statement of Net Assets along with accumulated depreciation.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Sewer system and improvements	20-35 years
Equipment	5-10 years

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGETARY DATA

The procedures in establishing the budget are as follows:

1. The Chairman prepares and submits to the Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenditures and means of financing them and is stated on a basis consistent with generally accepted accounting principles.
2. The Board formally adopts the finalized operating budget at a regular public meeting held prior to the commencement of the fiscal year.
3. Board administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
4. Formal budgetary integration is employed as a management control device during the year.

NOTE B - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in one financial institution in the name of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy required by Act 196 PA 1997 has been adopted by the Authority. The Authority's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	Carrying Amounts
Insured (FDIC)	\$ 92,611
Uninsured and Uncollateralized	-
Total Deposits	<u>\$ 92,611</u>
	Bank Balances
Insured (FDIC)	\$ 92,704
Uninsured and Uncollateralized	-
Total Deposits	<u>\$ 92,704</u>

The Authority's deposits are categorized below in accordance with GASB Standards No. 3 to give an indication of the level of credit risk assumed by the Authority at year-end. These categories do not disclose market risk, nor do they measure the risk that an insurer of securities would be unable to fulfill its obligations. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2 - Collateralized with securities held by the pledge of financial institution's trust department or agent in Authority's name.
- Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledge of financial institutions, or its Trust department or agent but not in the Authority's name.

At February 28, 2007 the Authority's balances were as follows:

	(1)	(2)	(3)	Bank Balance	Carrying Amount
Local and area banks	<u>\$ 92,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,704</u>	<u>\$ 92,611</u>

The authority had no significant type of investment during the year not included in the above schedule.

For all deposits shown, the market value at the balance sheet date is substantially the same as the carrying amount. The difference between the bank balance and carrying amount is due to outstanding checks and/or deposits in transit.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated -				
Construction in progress	\$2,895,008	\$ 430,081	\$ -	\$3,325,089
Capital assets being depreciated:				
Property and equipment	\$6,285,420	\$ -	\$ -	\$6,285,420
Less accumulated depreciation	<u>2,912,634</u>	<u>184,810</u>	<u>\$ -</u>	<u>3,097,444</u>
Total capital assets being depreciated, net of depreciation	<u>\$3,372,786</u>	<u>(\$ 184,810)</u>	<u>\$ -</u>	<u>\$3,187,976</u>
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$6,267,794</u>	<u>\$ 245,271</u>	<u>\$ -</u>	<u>\$6,513,065</u>

NOTE D - DUE TO OTHER GOVERNMENTAL UNITS

As of February 28, 2007, the Authority owes the Village of Baraga \$42,133 for expenses incurred and capital assets purchased by the Village in its role as System Operator.

NOTE E - LONG-TERM DEBT

The Keweenaw Bay Indian Community entered into an installment contract with the First of America Bank and transferred it to the Baraga Village/ Keweenaw Bay Reservation Waste Water Authority Board to allow for the Board to pay off the Farmers Home Administration indebtedness on the current system. The principal amount borrowed under the installment obligation was \$700,000. Terms of repayment required monthly payments of \$7,784 which included interest computed at 5.95%. Maturity date was August 13, 2006. This note was refinanced for \$287,915 with monthly payments beginning May 2003 of \$7,611, which included interest computed at 3.25%. Maturity date was August, 2006.

A loan was received from the Village of Baraga on July 10, 2003 in the amount of \$116,840. Payments of \$1,678.33 are required monthly, including annual interest at 5.50%. Maturity date is September 2010. Scheduled payments of principal and interest are listed below:

<u>Fiscal Year Ending February</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	\$ 3,247	\$ 16,893	\$ 20,140
2009	2,301	17,839	20,140
2010	1,288	18,852	20,140
2011	<u>271</u>	<u>\$ 13,155</u>	<u>13,426</u>
Totals	<u>\$ 7,107</u>	<u>\$ 66,739</u>	<u>\$ 73,846</u>

Long-term debt liability activity for the year ended February 28, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Installment contract	\$ 45,245	\$ -	\$ 45,245	\$ -
Loan	<u>82,729</u>	<u>-</u>	<u>15,990</u>	<u>66,739</u>
	<u>\$ 127,974</u>	<u>\$ -</u>	<u>\$ 61,235</u>	<u>\$ 66,739</u>

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - LONG-TERM DEBT (CONTINUED)

On September 1, 1996, the Village of Baraga transferred \$1,373,000 of sewer disposal system revenue bonds to the Baraga Village/Keweenaw Bay Reservation Waste Water Authority which in turn paid off these bonds with the contribution from the Keweenaw Bay Indian Community.

NOTE F - CONTRIBUTED CAPITAL

	<u>Village</u>	<u>KBIC</u>	<u>Total</u>
Capital contributed to the Authority March 1, 2006	\$5,157,641	\$525,187	\$5,682,828
Additional property, plant and equipment contributed to the Authority	430,081	-	430,081
Deduct - depreciation on property, plant and equipment contributed to the Authority	( 121,750)	( 28,559)	( 150,309)
TOTAL CONTRIBUTED CAPITAL			
AT FEBRUARY 28, 2007	<u>\$5,465,972</u>	<u>\$496,628</u>	<u>\$5,962,600</u>

NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains insurance coverage through the Michigan Municipal League which covers each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE H - WASTEWATER IMPROVEMENT PROJECT

During the year ended February 28, 2007, a wastewater improvement project costing approximately \$3.3 million was substantially completed. The project includes expansion of the existing lagoon system, upgrading of the main lift station, and the replacement of 9,000 linear feet of wastewater line. The project is being funded through the Village of Baraga. The Village issued \$2,890,000 in revenue bonds, and received a Michigan Economic Development Corporation Community Development Block grant for \$150,000. The Village also received a grant of \$279,500 from Indian Health Services. The Authority has established a bond reserve account to be used to pay off the revenue bonds issued by the Village.

JOSEPH M. DAAVETILA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT  
417 SHELDEN AVENUE, P.O. BOX 488  
HOUGHTON, MICHIGAN 49931

July 7, 2007

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Baraga Village/Keweenaw Bay Reservation  
Waste Water Authority  
Baraga, MI 49908

We have audited the financial statements of Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of and for the years then ended February 28, 2007 and February 28, 2006, and have issued our report thereon dated July 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Baraga Village/ Keweenaw Bay Reservation Waste Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards." However, we noted certain immaterial instances of noncompliance in previous years that we have reported to management of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority, in a separate letter dated July 7, 2007.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Baraga Village/Keweenaw Bay Reservation Waste Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant